Credit Reports, Credit Scores and Credit Transactions

When you apply for a credit card, a personal loan, or insurance, a file about you is created. This file, known as your "credit report," is maintained by credit reporting companies. Your report will grow to include information on where you live, how you pay your bills, and whether you've ever been sued, or filed for bankruptcy. Credit reporting companies sell the information in your report to creditors, insurers, employers, and other businesses with a legitimate need for it. They use the information to evaluate your applications for credit, insurance, employment, or renting a place to live. Credit reporting companies collect four basic types of information and sell it to people who have a lawful reason to collect it.

Identification and Employment Information
Your name, birth date, Social Security number, employer, and spouse's name are noted routinely. The credit reporting company also may provide information about your employment history, income, and previous address, if a creditor asks.

Payment History
Your accounts with different creditors are listed, showing how much credit has been extended and whether you've paid in a timely way. Related events, like the referral of an overdue account to a collection agency, also may be noted.

Inquiries
Credit reporting companies must maintain a record of all the creditors who have asked for your credit history within the past year, and a record of individuals or businesses that have asked for your credit history for employment purposes for the past two years.

Public Record Information
Events that are a matter of public record, like bankruptcies, foreclosures, and tax liens, may appear in your report. Having a good credit history means it will be easier for you to get loans and lower interest rates. Lower interest rates usually translate into smaller monthly payments. Conversely, having a bad credit history can haunt you for seven years or more. It can affect your ability to get additional credit. And if you can get credit, it may be at higher rates with less than favorable terms. Negative credit also can affect your ability to get or keep a job. Employers often use a credit report when they hire and evaluate employees for promotion, reassignment, or retention. These are just a few reasons why it's best to learn how to maintain good credit before a problem starts.

Getting Your Credit Report

The Fair Credit Reporting Act (FCRA) requires each of the nationwide credit reporting companies – Equifax, Experian, and TransUnion – to provide you with a free copy of your credit report, at your request, once every 12 months. The FCRA promotes the accuracy and privacy of information in the files of the nation's credit reporting companies. The FTC enforces the FCRA with respect to credit reporting companies.

Equifax, Experian, and TransUnion use one website, one toll-free telephone number, and one mailing address for consumers to order their free annual credit report. Do not contact the three nationwide credit reporting companies individually.

To order your free annual credit report:

- **visit:** annualcreditreport.com;
- **call toll-free:** 1-877-322-8228; or
- **mail** your completed Annual Credit Report Request Form (available at consumer.ftc.gov) to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

You may order your free annual reports from each of the credit reporting companies at the same time, or you may want to stagger your order throughout the year, providing you with a periodic look at your credit status.

To order your report, you'll need to provide your name, address, Social Security number, and date of birth. If you have moved in the last two years, you may have to provide your previous address. To maintain the security of your credit file, each nationwide credit reporting company may ask you for some information that only you would know, like the amount of your car payment. Each company may ask you for different information because the information each one has in your file may come from different sources.

Credit Scoring

Businesses often use more than the information in your credit report when they decide whether to grant you credit. They also consider your credit score. Here's how credit scoring works in helping decide who gets credit – and why. Information about you and your credit experiences, such as your bill-paying history, the number and type of accounts you have, late payments, collection actions, outstanding debt, and how long you've had your accounts, is collected from your credit application and your credit report. Using a statistical program, creditors compare this information to the credit performance of consumers with similar profiles. A credit scoring system awards points for each factor that helps predict who is most likely to repay a debt. A total number of points – a credit score – helps predict how creditworthy you are – that is, how likely you are to repay a loan and make the payments when they are due. The higher the points on your credit score, the better it is. A low score may mean you will be turned down for credit, or have to pay more for credit in the form of higher interest rates.

Credit Transactions

Credit card – You can use a credit card to buy things and pay for them over time. But remember, buying with credit is a loan – you have to pay the money back. And some issuers charge an annual fee for their cards. Some credit card issuers also provide "courtesy" checks to their customers. You can use these checks in place of your card, but they're not a gift – they're also a loan that you must pay back. And if you don't pay your bill on time or in full when it's due, you will owe a finance charge – the dollar amount you pay to use credit. The finance charge depends in part on your outstanding balance and the annual percentage rate (APR)

Charge card – If you use a charge card, you must pay the balance in full each time you get your statement.

Debit card – This card allows you to make purchases by accessing the money in your checking or savings account electronically.

The Fine Print: When applying for credit cards, it's important to shop around. Fees, interest rates, finance charges, and benefits can vary greatly among card issuers. And, in some cases, credit cards might seem like great deals until you read the fine print and disclosures. When you're trying to find the credit card that's right for you, look at the:

Annual percentage rate (APR) – The APR is a measure of the cost of credit, expressed as a yearly interest rate. It must be disclosed before your account can be activated, and it must appear on your account statements. The card issuer also must disclose the "periodic rate" – the rate applied to your outstanding balance to figure the finance charge for each billing period.

Some credit card plans allow the issuer to change your APR when interest rates or other economic indicators – called indexes – change. Because the rate change is linked to the index's performance, these plans are called "variable rate" programs. Rate changes raise or lower the finance charge on your account. If you're considering a variable rate card, the issuer also must tell you that the rate may change and how the rate is determined.

Before you become obligated on the account, you also must receive information about any limits on how much and how often your rate may change.

Grace period – The grace period is the number of days you have to pay your bill in full without triggering a finance charge. For example, the credit card company may say that you have 25 days from the statement date, provided you paid your previous balance in full by the due date. The statement date is on the bill.

The grace period usually applies only to new purchases. Most credit cards do not give a grace period for cash advances and balance transfers. Instead, interest charges start right away.

If your card includes a grace period, the issuer must mail your bill at least 14 days before the due date so you'll have enough time to pay.

Annual fees – Many issuers charge annual membership or participation fees that often range from \$20 to \$75.

Transaction fees and other charges – Some issuers charge a fee if you use the card to get a cash advance, make a late payment, or exceed your credit limit. Some charge a monthly fee whether or not you use the card.

Customer service – Customer service is something most people don't consider, or appreciate, until there's a problem. Look for a 24-hour toll-free telephone number.

Unauthorized charges – If your card is used without your permission, you can be held responsible for up to \$50 per card. If you report the loss before the card is used, you can't be held responsible for any unauthorized charges. If a thief uses your card before you report it missing, the most you'll owe for unauthorized charges is $50.

To minimize your liability, report the loss as soon as possible. Some issuers have 24-hour toll-free telephone numbers to accept emergency information. It's a good idea to follow-up with a letter to the issuer – include your account number, the date you noticed your card missing, and the date you reported the loss.